

Financial Statements
Manistee-Benzie Community
Mental Health Services

Manistee, Michigan

September 30, 2006



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Manistee-Benzie CMH Services	County Manistee
Fiscal Year End September 30, 2006	Opinion Date November 28, 2006	Date Audit Report Submitted to State March 19, 2007	

We affirm that:

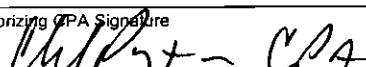
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | |
|-----|-------------------------------------|--------------------------|---|
| | <input checked="" type="checkbox"/> | <input type="checkbox"/> | Check each applicable box below. (See instructions for further detail.) |
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Roslund, Prestage & Co., P.C.		Telephone Number (989) 463-6123	
Street Address 308 Gratiot Avenue		City Alma	State MI
		Zip 48801	
Authorizing CPA Signature 		Printed Name Chad Payton	License Number 21946

Manistee-Benzie Community Mental Health Services
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INDEPENDENT AUDITOR'S REPORT

Manistee-Benzie Community Mental Health Services
Manistee, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Manistee-Benzie Community Mental Health Services (the Board), as of and for the year ended September 30, 2006, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Board as of September 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2006 on our consideration of the Board's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Co, PC

Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 28, 2006

MANAGEMENT'S DISCUSSION and ANALYSIS

Manistee Benzie Community Mental Health
Financial Statements for the Fiscal Year Ended September 30, 2006
Management's Discussion and Analysis

The management of Manistee Benzie Community Mental Health (MBCMH) presents the following overview and analysis of the financial activities during the past year. MBCMH was organized under an Urban Cooperation Act between the Board of Commissioners of Manistee County and Benzie County in 1992.

This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation.

Overview of Financial Statements:

Two types of financial statements are provided: Government-wide Financial Statements and Fund Financial Statements.

Government-wide financial statements are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information), which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information), which shows revenues and expenses and the change in net assets from the previous year.

Fund financial statements offer a series of statements that focus on the major governmental funds. For MBCMH, the major funds consist of the General fund. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Financial Statements.

Notes to Financial Statements:

The Notes to the Financial Statements, which immediately follow the Fund Financial Statements, provide additional and more detailed information that is essential to a full understanding of the data provided in the Financial Statements.

The 2002/2003 fiscal year was the beginning of a contract period in which the Department of Community Health contracted for Medicaid services through a designated Prepaid Inpatient Health Plan (PIHP) which had to consist of 20,000 or more Medicaid covered lives. MBCMH, which has approximately 5,500 total Medicaid lives, entered into an affiliated cooperative agreement with Clinton Eaton Ingham Community Mental Health, Ionia County Community Mental Health, Newaygo County Community Mental Health, and Gratiot County Community Mental Health. This affiliation is called the Community Mental Health Affiliation of Mid-Michigan. Clinton Eaton Ingham Community Mental Health was designated as the PIHP in this cooperative agreement and was awarded the Medicaid contract for the 8 county region. Clinton Eaton Ingham Community Mental Health has sub-contracted with MBCMH to provide Medicaid covered services for the counties of Manistee and Benzie since the Manistee Benzie Community Mental Health entered the affiliation, and for the current fiscal year. The affiliation has formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Manistee Benzie Community Mental Health also holds a Managed Mental Health Supports and Services Contract with the Department of Community Health for general funds.

Operating and Financial Highlights

General Fund

The fiscal year 2005/2006 budget adopted by the governing board was Revenue of \$11,720,458 and Expenditures of \$11,720,458. The Actual compared to Budget for the general fund is presented below.

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Revenue	\$11,742,775	\$11,720,458	\$22,317
Expenditures	\$11,671,034	\$11,720,458	\$49,424
Change in Fund Balance	\$ 71,741	\$ 0	\$71,741

The comparison of fiscal year 2005/2006 operations to fiscal year 2004/2005 is presented below. These amounts are for the general fund of MBCMH.

	<u>2004/2005</u>	<u>2005/2006</u>	<u>Difference</u>
Revenues	\$13,824,671	\$11,742,775	(\$2,081,896)
Expenditures	\$13,816,229	\$11,671,034	(\$2,145,195)

The change in revenues recognized in the general fund between the 2005 and 2006 fiscal years was a decrease of 15%. Expenditures decreased by 16%. The decrease was expected and planned for.

In September of 2006 the Board approved a budget plan for the 2006/2007 fiscal year.

Employment Issues The turnover rate for Manistee Benzie Community Mental Health during the past fiscal year was 12.1% compared to the Bureau of Labor Statistics published turnover rate of 31.6%. The Manistee Benzie Community Mental Health rate of 12.1% includes seven employees who participated in the budget reduction severance package.

Manistee Benzie Community Mental Health continues to provide employees with Health Reimbursement Accounts through its third party administrator, Lumenos. 64% of employees had positive balances within their HRAs at the end of the 2005 calendar year, the most recent completed year of the health plan. The average balance was \$651. Manistee Benzie Community Mental Health will continue to monitor its Health Plan carefully due to the fact that there is a smaller base of employees.

Electronic Medical Records Manistee Benzie Community Mental Health implemented an electronic medical record system in August of 2004. During the 2007 fiscal year there will be further fine tuning to the Electronic Medical (Health) record due to ongoing regulatory requirements.

Funding Issues

Local County Match Both Manistee and Benzie Counties have been apprised of the fact that they are not meeting their local match allocation obligation as required under the Michigan Mental Health Code (PA 258). Due to budget cuts during the past several years Manistee Benzie Community Mental Health has lost most of its ability to earn revenues that can be used to supplement the County obligation. This will create significant funding problems in the future if the Counties continue to fail to meet their obligation.

State General Funds Manistee Benzie Community Mental Health continues to receive the lowest per capita funding in relationship to county residents at or below the 200% poverty level. It is primarily this population that is indigent and requires General Funds to cover the cost of services required under the Michigan Mental Health Code (PA 258). An appeal for reconsideration of the Manistee Benzie Community Mental Health allocation of General Funds was made to MDCH and an increase of \$30,000 was granted. Manistee Benzie Community Mental Health was told by MDCH staff to use its unrestricted local fund balance to cover costs of services that would otherwise (in other Counties) be covered with State General Funds. The unrestricted local fund balance is currently at a level recommended by recent audits to be available for emergency shortfalls or other financial emergencies. The majority of the General Funds are currently being used to pay for Medicaid spend downs, indigent local psychiatric hospital services, State Facility services, jail services, and to supplement inadequate funding for MI Child, the Adult Benefit Waiver, and the Children's Waiver.

Medicaid Funding Subcontract For the 2003/2004 fiscal year the Department of Community Health revised the Medicaid funding distribution based on a regional rate. The Community Mental Health Affiliation of Mid-Michigan made the decision to continue to fund each affiliate based on the same percentage as the 2002/2003 fiscal year. This two year hold harmless period ended September 30, 2005. The new funding formula calculated within the affiliation by the PIHP, resulted in \$2,335,000 less Medicaid funds for Manistee Benzie Community Mental Health for the 2006 fiscal year. In anticipation of the funding reduction for the 2006 fiscal year Manistee Benzie Community Mental Health reviewed programs and services, and left several vacant positions unfilled. As part of the overall budget reduction the PIHP's level of care guidelines were adopted. In addition the entire Manistee Benzie CMH operations service structure was revamped based on the PIHP service model. Under the umbrella of long term and short term care this model includes more of a focus on Crisis Management as opposed to traditional outpatient clinical services. This new model also includes a more flexible staffing model, which enabled us to better move resources to where there is the most need.

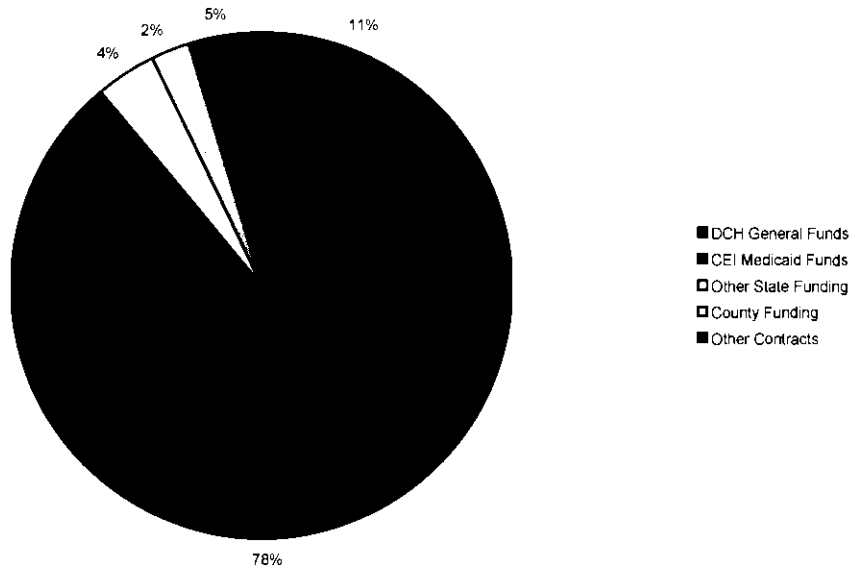
Using the new service model, Substance Abuse services were eliminated, as that program had required substantial use of local funds. Other services such as Community Living Supports and Supported Employment also were reduced. Reductions were based on analysis of appropriate service levels per consumer diagnosis.

Thirty-six full time and part time staff positions were eliminated as a result of the budget reductions, including staff from all areas of the agency. In addition to staff position reductions a variety of other steps were taken to lessen the impact on services to consumers.

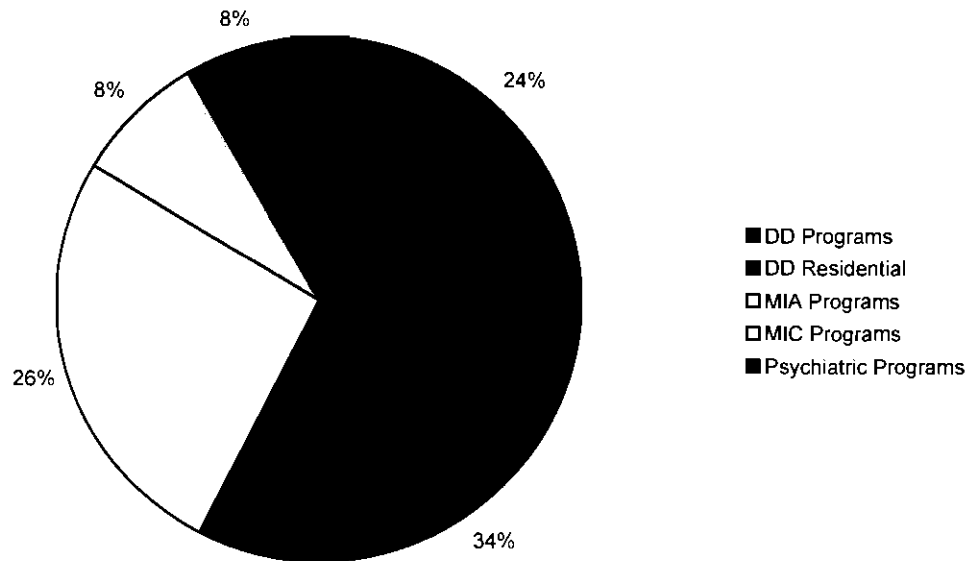
The reduction impact on consumer services was not as great as expected. While some areas saw service unit decreases, such as community living supports, skill building, and supported employment, other areas, such as respite and consumer service management saw increases, and other areas such as prevention, ACT, homebased, residential, and supports coordination services were equal to the prior year.

Funding Sources The Medicaid Managed Care Subcontract with the PIHP, Clinton Eaton Ingham CMH, represents 78% of the total revenue, while State Contracts with the Department of Community Health represent 12%. County appropriations are 2.4% of total revenue, and the remaining 7.6% is from miscellaneous local contracts, interest income, and third party charge revenue.

Sources of Funding Fiscal Year 2006



Use of Funding Fiscal Year 2006



**BASIC FINANCIAL STATEMENTS -
GOVERNMENT WIDE FINANCIAL STATEMENTS**

Manistee-Benzie Community Mental Health Services
Statement of Net Assets
September 30, 2006 and 2005

	Governmental Activities	
	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$4,017,817	\$4,074,151
Accounts receivable, net	167,390	222,380
Due from other governmental units	180,312	100,868
Prepaid expenses	137,413	76,183
Total current assets	4,502,932	4,473,582
Noncurrent assets		
Capital assets - depreciable, net	1,129,289	1,346,736
Capital assets - land	123,000	123,000
Total noncurrent assets	1,252,289	1,469,736
Total assets	5,755,221	5,943,318
Liabilities		
Current liabilities		
Accounts payable	450,049	286,302
Accrued liabilities	158,213	167,127
Accrued payroll and related liabilities	228,810	535,125
Due to other governmental units	98,924	62,699
Deferred revenue	-	105,917
Notes payable - current portion	-	55,817
Total current liabilities	935,996	1,212,987
Noncurrent liabilities		
Notes payable - less current portion	-	87,267
Total noncurrent liabilities	-	87,267
Total liabilities	935,996	1,300,254
Net assets		
Invested in capital assets, net of related debt	1,252,289	1,326,652
Unrestricted	3,566,936	3,316,412
Total net assets	\$4,819,225	\$4,643,064

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Statement of Activities

For The Year Ended September 30, 2006, With Comparative Data

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2005
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$11,647,942</u>	<u>\$9,608,763</u>	<u>\$1,987,242</u>	(\$51,937)	\$32,098
General revenues					
Unrestricted investment earnings				146,770	90,458
Restricted investment earnings				2,116	1,477
Gain on disposal of fixed assets				1,500	6,942
Internal service fund revenues, net of charges to the general fund				<u>77,712</u>	<u>109,263</u>
Total general revenues and contributions				<u>228,098</u>	<u>208,140</u>
Change in net assets				176,161	240,238
Net assets - beginning of year				<u>4,643,064</u>	<u>4,402,826</u>
Net assets - end of year				<u>\$4,819,225</u>	<u>\$4,643,064</u>

The Notes to the Financial Statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

Manistee-Benzie Community Mental Health Services
Balance Sheet
Governmental Funds
September 30, 2006 and 2005

	General Fund	
	2006	2005
Assets		
Cash and cash equivalents	\$3,930,849	\$3,926,683
Accounts receivable, net	167,390	222,380
Due from other funds	-	43,579
Due from other governmental units	180,312	100,868
Prepaid expenses	122,257	60,081
Total assets	<u>\$4,400,808</u>	<u>\$4,353,591</u>
Liabilities and Fund Equity		
Liabilities		
Accounts payable	\$450,049	\$286,302
Accrued liabilities	76,414	88,591
Accrued payroll and related liabilities	228,810	535,125
Due to other governmental units	98,924	62,699
Due to other funds	695,028	601,032
Total liabilities	<u>1,549,225</u>	<u>1,573,749</u>
Fund equity		
Reserved for prepaid expenditures	122,257	60,081
Unreserved	2,729,326	2,719,761
Total fund equity	<u>2,851,583</u>	<u>2,779,842</u>
Total liabilities and fund equity	<u>\$4,400,808</u>	<u>\$4,353,591</u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds
to Net Assets of Governmental Activities on the Statement of Net Assets
For The Year Ended September 30, 2006

Total fund balance - governmental funds	\$2,851,583
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the general fund.	
Add: capital assets	603,043
Deduct: accumulated depreciation	(446,705)
Internal service funds are used by management to charge the costs of certain activities, such as vehicle operations, building usage, and health benefits to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.	<u>1,811,304</u>
Net assets of governmental activities	<u><u>\$4,819,225</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For The Year Ended September 30, 2006 and 2005

	General Fund	
	2006	2005
REVENUES		
State Grants		
Department of Community Health Contract		
general fund formula and categorical	\$1,412,416	\$1,269,020
Other State grants	10,307	11,110
Total State grants	<u>1,422,723</u>	<u>1,280,130</u>
Federal grants	<u>232,447</u>	<u>153,348</u>
Contributions - local units		
County appropriations	<u>287,273</u>	<u>287,273</u>
Charges for services		
Medicaid - CEI CMH contract	9,171,119	11,386,810
Medicaid - other	105,786	110,247
Client and third party pay	69,931	68,905
Other contract revenue	261,927	343,100
Total charges for services	<u>9,608,763</u>	<u>11,909,062</u>
Interest and rents		
Interest	<u>146,770</u>	<u>90,458</u>
Other revenue	<u>44,799</u>	<u>104,400</u>
Total revenues	11,742,775	13,824,671
EXPENDITURES		
Health & Welfare - Mental Health		
Personnel costs	5,555,655	7,416,384
Operating expenditures	6,115,379	6,397,161
Capital outlay	<u>-</u>	<u>2,684</u>
Total expenditures	<u>11,671,034</u>	<u>13,816,229</u>
Excess of revenues over expenditures	71,741	8,442
Fund balance, beginning of year	<u>2,779,842</u>	<u>2,771,400</u>
Fund balance, end of year	<u>\$2,851,583</u>	<u>\$2,779,842</u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For The Year Ended September 30, 2006

Net change in fund balances - total governmental funds	\$71,741
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Deduct: depreciation expense	(56,985)
Internal service funds are used by management to charge the costs of certain activities, such as vehicle operations, building usage, and health benefits, to the general fund. The net revenue (expense) of certain internal service funds is reported with governmental activities.	<u>161,405</u>
Change in net assets of governmental activities	<u><u>\$176,161</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combined Statement of Net Assets
Proprietary Funds
September 30, 2006 and 2005

	Internal Service Funds	
	2006	2005
Assets		
Current assets		
Cash and cash equivalents	\$86,968	\$147,468
Due from other funds	695,028	601,032
Prepaid expenses	15,156	16,102
Total current assets	797,152	764,602
Noncurrent assets		
Capital assets - depreciable, net	972,951	1,133,413
Capital assets - land	123,000	123,000
Total noncurrent assets	1,095,951	1,256,413
Total assets	\$1,893,103	\$2,021,015
Liabilities and Net Assets		
Liabilities		
Current liabilities		
Due to other funds	-	\$43,579
Accrued liabilities	\$81,799	78,536
Deferred revenue	-	105,917
Notes payable - current portion	-	55,817
Total current liabilities	81,799	283,849
Noncurrent liabilities		
Notes payable - less current portion	-	87,267
Total noncurrent liabilities	-	87,267
Total liabilities	81,799	371,116
Net assets		
Invested in capital assets, net of related debt	1,095,951	1,113,329
Unreserved	715,353	536,570
Total net assets	1,811,304	1,649,899
Total liabilities and net assets	\$1,893,103	\$2,021,015

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combined Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended September 30, 2006 and 2005

	<u>Internal Service Funds</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues		
Charges for services and rent	\$1,513,664	\$1,703,206
Operating expenses		
Health claims	1,081,087	1,103,883
Vehicle expense	34,090	40,207
Depreciation	169,389	190,216
Maintenance	28,182	21,124
Insurance	26,355	23,993
Other	3,670	3,894
Total operating expenses	<u>1,342,773</u>	<u>1,383,317</u>
Operating income (loss)	170,891	319,889
Non-operating revenues (expenses)		
Interest income	2,116	1,477
Interest expenses	(13,102)	(12,261)
Gain/(loss) on sale of fixed assets	<u>1,500</u>	<u>6,942</u>
Total non-operating expense	<u>(9,486)</u>	<u>(3,842)</u>
Excess of revenues over expenditures	161,405	316,047
Net assets, beginning of year	<u>1,649,899</u>	<u>1,333,852</u>
Net assets, end of year	<u><u>\$1,811,304</u></u>	<u><u>\$1,649,899</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combined Statement of Cash Flows
Proprietary Funds
For The Year Ended September 30, 2006 and 2005

	Internal Service Funds	
	2006	2005
Cash flows from operating activities		
Receipts from interfund services provided	\$1,369,957	\$1,378,068
Receipts from others	49,711	72,993
Payments for interfund services	(43,579)	(25,699)
Payment to suppliers	(1,275,092)	(1,170,174)
Net cash provided (used) by operating activities	100,997	255,188
Cash flows from capital and related financing activities		
Principal paid on capital debt	(143,084)	(82,537)
Interest paid on capital debt	(13,102)	(12,261)
Proceeds from sales of capital assets	1,500	10,527
Purchase of capital assets	(8,927)	(163,525)
Net cash provided (used) by capital and related financing activities	(163,613)	(247,796)
Cash flows from investing activities		
Proceeds from interest earnings	2,116	1,477
Net cash provided (used) by investing activities	2,116	1,477
Net increase (decrease) in cash and cash equivalents	(60,500)	8,869
Cash and cash equivalents, beginning of year	147,468	138,599
Cash and cash equivalents, end of year	\$86,968	\$147,468
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	\$170,891	\$319,889
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation expense	169,389	190,216
(Increase) decrease in prepaid expenses	946	64
(Increase) decrease in due from other funds	(93,996)	(393,185)
(Increase) decrease in other receivables	-	7,971
Increase (decrease) in due to other funds	(43,579)	(1,034)
Increase (decrease) in accrued liabilities	3,263	25,350
Increase (decrease) in deferred revenue	(105,917)	105,917
Net cash provided (used) by operating activities	\$100,997	\$255,188

The Notes to the Financial Statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Manistee-Benzie Community Mental Health Services (the Board) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Board.

Reporting Entity

The Board operates as a Community Mental Health Board under the provisions of Act 258 of the Public Acts of 1974, as amended. The Board provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Manistee and Benzie Counties.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Board's reporting entity, and which organizations are legally separate, component units of the Board. Based on the application of the criteria, the Board does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Board. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Board's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Manistee-Benzic Community Mental Health Services
Notes To The Financial Statements

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to the general fund for vehicle operations, building operations, and insurance services. Operating expenses for internal service funds include vehicle operations, building operations, and insurance claims. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Board reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Board's primary operating fund. It accounts for all financial resources of the Board, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Funds – These funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies or to other governments on a cost-reimbursement basis. The Motor Pool Fund, Building Fund and Health Fund are reported as Internal Service Funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

The Board adopts an annual budget for the general fund. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Cash and Cash Equivalents

The Board's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and certificates of deposit.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Board does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The Board does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements and proprietary fund financial statements.

Computers, software and building and improvements are depreciated using the straight-line method over their estimated useful lives. Vehicles are depreciated using an accelerated method over their estimated useful lives. Following is a breakdown of estimated useful lives used:

Assets	Years
Computers and Office Equipment	5 - 12
Software	5 - 3
Vehicles	5
Buildings and Improvements	7 - 40
Land	Not Depreciated

Inpatient / Residential Cost Liability

The amount recorded for inpatient / residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Board does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the actual cost may vary from the estimated due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Board. This liability is included in accounts payable and due to other governmental units.

Deferred Revenue

Deferred revenues arise when resources are received by the Board before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Board has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for risk management are an example of the latter.

MDCH Revenue

General Fund Revenue

The Board provides mental health services on behalf of the Michigan Department of Community Mental Health (MDCH). Currently, the Board contracts directly with the MDCH for General Fund revenues to support the services provided for priority population residing in Manistee and Benzie Counties.

Medicaid Revenue

Also, the Board contracts to receive Medicaid revenue through the Community Mental Health Affiliation of Mid-Michigan for Medicaid-qualified services rendered to residents of Manistee and Benzie Counties. The Community Mental Health Affiliation of Mid-Michigan contracts with the MDCH to administer these Medicaid funds.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the function level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Board does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess of Expenditures over Appropriations

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2006, the Board incurred expenditures in excess of the amounts appropriated as shown on page 23 of this report as unfavorable variances.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

NOTE 3 - DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Board's cash and cash equivalents was as follows:

	2006	2005
Petty cash	\$825	\$900
Cash and cash equivalents	3,288,266	3,373,251
Certificates of deposit	728,726	700,000
Totals	\$4,017,817	\$4,074,151

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Board's deposits might not be recovered. At September 30, 2006, the carrying amount of the Board's deposits was \$4,016,992, and the bank balance was \$4,381,087. Of the bank balance, \$400,252 was covered by federal depository insurance and \$3,980,835 was uninsured and uncollateralized. Deposits which exceed FDIC insurance coverage limits are held at local banks. The Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Board evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Investments

State statutes authorize the Board to invest in obligations and certain repurchase agreements of the United States Treasury and related governmental agencies, commercial paper, banker's acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions, and mutual funds composed entirely of the above investments. As of September 30, 2006, the Board had no such investments.

The Board's investment policy complies with the State statutes and has no additional investment policies that would limit its investment choices.

Interest Rate Risk – Investments

Under State statutes, investment in commercial paper is limited to maturities of not more than 270 days after the date of purchase. The Board's investment policy does not place any further limitations on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Custodial Credit Risk – Investments

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Board will not be able to recover the value of its investments that are in the possession of an outside party. The Board requires all security transactions, including collateral for repurchase agreements, to be made on a cash basis or a delivery vs. payment basis. Securities may be held by a third party custodian and must be evidenced by safekeeping receipts. The Board does not have any additional policies for custodial credit risk over investments.

Credit Risk

State statutes limit investments in commercial paper to be rated at the time of purchase within the three highest classifications established by not less than two standard rating services. Investments in obligations of the State of Michigan or its political subdivisions must be rated as investment grade by not less than one rating service. Investments in bonds, obligations, or repurchase agreements must be made with the U.S. Treasury and banker's acceptances with United States banks. The Board's investment policy limits investments to be made with prudent judgment as to the safety of the invested capital and probable outcome of income.

Concentration of Credit Risk

The Board places no limit on the amount it may invest in any one issuer.

Due From Other Governmental Units

Due from other governmental units as of September 30, consists of the following:

Governmental Unit	2006	2005
Michigan Department of Community Health - OBRA Grant	\$5,434	\$5,834
Federal Block Grants	93,173	-
Benzie County	28,568	28,568
Manistee County	13,750	13,750
Clinton, Eaton, Ingham CMH Authority	13,229	7,942
Manistee Intermediate School District	19,000	20,125
Various Other Governmental Units	7,158	24,649
Totals	\$180,312	\$100,868

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Changes in Capital Assets

A summary of changes in the capital assets follows:

Assets	Beginning Balance	Additions	Disposals	Ending Balance
Computers and Office Equipment	\$281,917	-	-	\$281,917
Software	321,126	-	-	321,126
Vehicles	623,997	-	(\$18,288)	605,709
Buildings and Improvements	1,660,366	\$8,927	-	1,669,293
Land	123,000	-	-	123,000
Sub-totals	3,010,406	8,927	(18,288)	3,001,045
Accumulated Depreciation	(1,540,670)	(226,374)	\$18,288	(1,748,756)
Totals	\$1,469,736	(\$217,447)	-	\$1,252,289

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Due to Other Governmental Units

Due to other governmental units as of September 30, consist of the following:

	2006	2005
State of Michigan – Inpatient/Residential Care	\$67,156	\$30,179
State of Michigan – Lease Expense	18,898	-
Clinton, Eaton, Ingham CMH Authority	12,870	32,520
Total	\$98,924	\$62,699

Deferred Revenue

The amount reported as deferred revenue represents the carry forward allowance for the general fund portion of the Department of Community Health's authorization.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Long Term Debt – Building Loans

The Building Fund financed \$395,000 for the purchase and renovation of land and a building with a bank. The note is payable in monthly installments of \$4,501 with an interest rate of 6.58% and is secured by real estate. The balance owed at September 30, 2006 was \$0.

The Building Fund financed \$300,000 for an addition to the Administrative Building with a bank. The note is payable in monthly installments of \$3,399 with an interest rate of 6.36% and is secured by real estate. The balance owed at September 30, 2006 was \$0.

The changes in long term liabilities during the 2006 fiscal year are as follows:

Liability	Beginning Balance	Additions	Reductions	Ending Balance
Notes Payable	\$143,084	-	\$143,084	-

NOTE 4 - OTHER INFORMATION

Retirement System

Plan Description

The Board sponsors a Money Purchase Pension Plan (the "Plan"). The Plan is a tax-qualified defined contribution pension plan. As of January 1, 2005, the Board amended this plan effectively merging the Money Purchase Pension Plan with the Retirement Investment Plan. Employees of the Board are generally eligible to participate in the Money Purchase Pension Plan following their attainment of age 18 and completion of six months of service. Employees of the Board are eligible to participate in the Retirement Investment Plan following the completion of one hour of service. As a condition of employment, each participant must agree to contribute 6.2% of his or her compensation to the Retirement Investment Plan.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

Funding Policy

Contributions made in respect to the Money Purchase Pension Plan are considered “Base Contributions”. Contributions made in respect to the Retirement Investment Plan are considered “Pick-Up” contributions. The Board contributes an amount to each participant’s account equal to 7% of the participant’s compensation for base contributions. The Board also contributes an amount equal to 6.2% of the participant’s compensation for the pick-up contributions. As a condition of employment, each participant must agree to also contribute 6.2% of his or her compensation to the plan. Employees are fully vested in pick-up contributions at all times; however, withdrawals from the pick-up contributions are not allowed prior to termination of employment. For the year ended September 30, 2006, the Board’s contribution to these plans totaled \$428,204.

Compliance Audits

The Board participates in various federal, state, and local grants for mental health and substance abuse programs. Certain provisions and allowable levels of participation and expenditures not qualifying for participation are subject to interpretation and adjustment by appropriate governmental agencies. State grants are subject to audit by responsible state agencies. Although these audits may result in some changes, they are not expected to have a material effect on the financial statements.

Risk Management

Michigan Municipal Risk Management Authority

The Board is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board manages its risk exposures and provides certain employee benefits through a combination of self-insurance, risk management pools and commercial insurance. Coverage provided by pools and commercial carriers has not changed significantly and there have been no claims paid in excess of insured limits in the past three years.

The Board participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for general liability and property damage coverage.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

Manistee-Benzie Community Mental Health Services
Notes To The Financial Statements

As a member of this pool, the Board is responsible for paying all costs, including damages, indemnification, and allocated loss adjustment expenses for each occurrence that is within the Member's Self Insured Retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Board.

For the period July 1, 2006 through July 1, 2007, the Board's coverage limits are \$5,000,000 for liability and from \$10,000 up to \$200,000,000 for property and crime. The expense recognized by the Board for this type of risk management coverage for this time period totaled \$53,060.

Self-Insured Medical Benefits

The Board has established a self-insurance plan covering certain medical, dental and vision benefits for substantially all of its employees. An internal service fund has been established to pay benefit claims and is funded by the general fund based on projected claims. The Board maintains specific stop-loss coverage of \$40,000 per person each year.

Estimates for the liability for unpaid claims are based on actual claims in process as of the year end. Incurred, but unreported, claims are estimated by management to be insignificant.

REQUIRED SUPPLEMENTAL INFORMATION

Manistee-Benzie Community Mental Health Services
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
General Fund
For The Year Ended September 30, 2006

	<u>Budgeted Amounts</u>			Variance Between Actual and Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
State Grants				
Department of Community Health Contract general fund formula and categorical	\$1,280,250	\$1,383,201	\$1,412,416	\$29,215
Other State grants	12,548	10,248	10,307	59
Total State grants	<u>1,292,798</u>	<u>1,393,449</u>	<u>1,422,723</u>	<u>29,274</u>
Federal grants	<u>269,923</u>	<u>239,923</u>	<u>232,447</u>	<u>(7,476)</u>
Contributions - local units				
County appropriations	<u>287,273</u>	<u>287,273</u>	<u>287,273</u>	<u>-</u>
Charges for services				
Medicaid - CEI CMH contract	8,881,508	9,147,718	9,171,119	23,401
Medicaid - other	110,775	110,775	105,786	(4,989)
Client and third party pay	143,130	123,130	69,931	(53,199)
Other contract revenue	281,347	254,440	261,927	7,487
Total charges for services	<u>9,416,760</u>	<u>9,636,063</u>	<u>9,608,763</u>	<u>(27,300)</u>
Interest and rents				
Interest	<u>85,000</u>	<u>125,000</u>	<u>146,770</u>	<u>21,770</u>
Other revenue	<u>56,250</u>	<u>38,750</u>	<u>44,799</u>	<u>6,049</u>
Total revenues	<u>11,408,004</u>	<u>11,720,458</u>	<u>11,742,775</u>	<u>22,317</u>
EXPENDITURES				
Health & Welfare - Mental Health				
Personnel costs	5,420,336	5,584,290	5,555,655	28,635
Operating expenditures	<u>5,987,668</u>	<u>6,136,168</u>	<u>6,115,379</u>	<u>20,789</u>
Total expenditures	<u>11,408,004</u>	<u>11,720,458</u>	<u>11,671,034</u>	<u>49,424</u>
Excess of revenues over expenditures	-	-	71,741	71,741
Fund balance, beginning of year	<u>2,779,842</u>	<u>2,779,842</u>	<u>2,779,842</u>	<u>-</u>
Fund balance, end of year	<u><u>\$2,779,842</u></u>	<u><u>\$2,779,842</u></u>	<u><u>\$2,851,583</u></u>	<u><u>\$71,741</u></u>

The Notes to the Financial Statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

Manistee-Benzie Community Mental Health Services
Supporting Schedule of Personnel Costs
For The Year Ending September 30, 2006 and 2005

Governmental Fund Types

General Fund

	<u>2006</u>	<u>2005</u>
Personnel costs		
Salaries and wages	\$4,058,984	\$5,331,484
Fringe benefits	<u>1,496,671</u>	<u>2,084,900</u>
 Total personnel costs	 <u><u>\$5,555,655</u></u>	 <u><u>\$7,416,384</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Supporting Schedule of Operating Expenditures
For The Year Ending September 30, 2006 and 2005

Governmental Fund Types

General Fund

	<u>2006</u>	<u>2005</u>
Operating expenditures		
Contractual services	\$4,762,447	\$4,930,633
Client supplies	101,695	80,703
Insurance	41,914	49,116
Office and computer supplies	12,343	14,464
Operating supplies	64,030	79,539
Other	32,517	58,483
Rent	296,060	315,600
Repairs and maintenance	77,280	81,225
Small equipment purchases	208,410	232,205
Staff development and training	47,961	51,700
Telephone and utilities	129,052	147,751
Transportation	20,738	34,535
Travel	320,932	321,207
	<u>320,932</u>	<u>321,207</u>
 Total operating expenditures	 <u>\$6,115,379</u>	 <u>\$6,397,161</u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combining Statement of Net Assets
Proprietary Funds
September 30, 2006, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2006	2005
Assets					
Current assets					
Cash and cash equivalents	-	-	\$86,968	\$86,968	\$147,468
Due from other funds	\$69,262	\$241,214	384,552	695,028	601,032
Prepaid expenses	15,156	-	-	15,156	16,102
Total current assets	84,418	241,214	471,520	797,152	764,602
Noncurrent assets					
Capital assets - depreciable, net	114,442	858,509	-	972,951	1,133,413
Capital assets - land	-	123,000	-	123,000	123,000
Total noncurrent assets	114,442	981,509	-	1,095,951	1,256,413
Total assets	<u>\$198,860</u>	<u>\$1,222,723</u>	<u>\$471,520</u>	<u>\$1,893,103</u>	<u>\$2,021,015</u>
Liabilities and Net Assets					
Liabilities					
Current liabilities					
Due to other funds	-	-	-	-	\$43,579
Accrued liabilities	-	\$6,799	\$75,000	\$81,799	78,536
Deferred revenue	-	-	-	-	105,917
Notes payable - current portion	-	-	-	-	55,817
Total current liabilities	-	6,799	75,000	81,799	283,849
Noncurrent liabilities					
Notes payable - less current portion	-	-	-	-	87,267
Total noncurrent liabilities	-	-	-	-	87,267
Total liabilities	-	6,799	75,000	81,799	371,116
Net assets					
Invested in capital assets, net of related debt	\$114,442	981,509	-	1,095,951	1,113,329
Unreserved	84,418	234,415	396,520	715,353	536,570
Total net assets	198,860	1,215,924	396,520	1,811,304	1,649,899
Total liabilities and net assets	<u>\$198,860</u>	<u>\$1,222,723</u>	<u>\$471,520</u>	<u>\$1,893,103</u>	<u>\$2,021,015</u>

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For The Year Ended September 30, 2006, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2006	2005
Operating revenues					
Charges for services	\$199,980	-	\$1,166,236	\$1,366,216	\$1,531,819
Rent	-	\$147,448	-	147,448	171,387
Total operating revenues	199,980	147,448	1,166,236	1,513,664	1,703,206
Operating expenses					
Health claims	-	-	1,081,087	1,081,087	1,103,883
Vehicle expense	34,090	-	-	34,090	40,207
Depreciation	88,073	81,316	-	169,389	190,216
Maintenance	28,182	-	-	28,182	21,124
Insurance	26,355	-	-	26,355	23,993
Other	958	2,272	440	3,670	3,894
Total operating expenses	177,658	83,588	1,081,527	1,342,773	1,383,317
Operating income (loss)	22,322	63,860	84,709	170,891	319,889
Non-operating revenues (expense)					
Interest income	-	-	2,116	2,116	1,477
Interest expenses	-	(13,102)	-	(13,102)	(12,261)
Gain/(loss) on sale of fixed assets	1,500	-	-	1,500	6,942
Total non-operating revenues (expense)	1,500	(13,102)	2,116	(9,486)	(3,842)
Excess of revenues over expenditures	23,822	50,758	86,825	161,405	316,047
Net assets, beginning of year	175,038	1,165,166	309,695	1,649,899	1,333,852
Net assets, end of year	\$198,860	\$1,215,924	\$396,520	\$1,811,304	\$1,649,899

The Notes to the Financial Statements are an integral part of this statement.

Manistee-Benzie Community Mental Health Services
Combining Statement of Cash Flows
Proprietary Funds
For The Year Ended September 30, 2006, With Comparative Data

	Motor Pool Fund	Building Fund	Health Fund	Internal Service Funds	
				2006	2005
Cash flows from operating activities					
Receipts from interfund services provided	\$115,779	\$129,350	\$1,124,828	\$1,369,957	\$1,378,068
Receipts from others	14,939	34,772	-	49,711	72,993
Payments for interfund services	(43,579)	-	-	(43,579)	(25,699)
Payment to suppliers	(88,639)	991	(1,187,444)	(1,275,092)	(1,170,174)
Net cash provided (used) by operating activities	(1,500)	165,113	(62,616)	100,997	255,188
Cash flows from capital and related financing activities					
Principal paid on capital debt	-	(143,084)	-	(143,084)	(82,537)
Interest paid on capital debt	-	(13,102)	-	(13,102)	(12,261)
Proceeds from sales of capital assets	1,500	-	-	1,500	10,527
Purchase of capital assets	-	(8,927)	-	(8,927)	(163,525)
Net cash provided (used) by capital and related financing activities	1,500	(165,113)	-	(163,613)	(247,796)
Cash flows from investing activities					
Proceeds from interest earnings	-	-	2,116	2,116	1,477
Net cash provided (used) by investing activities	-	-	2,116	2,116	1,477
Net increase (decrease) in cash and cash equivalents	-	-	(60,500)	(60,500)	8,869
Cash and cash equivalents, beginning of year	-	-	147,468	147,468	138,599
Cash and cash equivalents, end of year	-	-	\$86,968	\$86,968	\$147,468
Reconciliation of operating income to net cash provided by (used for) operating activities:					
Operating income (loss)	\$22,322	\$63,860	\$84,709	\$170,891	\$319,889
Adjustments to reconcile operating income to net cash provided (used) by operating activities					
Depreciation expense	88,073	81,316	-	169,389	190,216
(Increase) decrease in prepaid expenses	946	-	-	946	64
(Increase) decrease in due from other funds	(69,262)	16,674	(41,408)	(93,996)	(393,185)
(Increase) decrease in other receivables	-	-	-	-	7,971
Increase (decrease) in due to other funds	(43,579)	-	-	(43,579)	(1,034)
Increase (decrease) in accrued liabilities	-	3,263	-	3,263	25,350
Increase (decrease) in deferred revenue	-	-	(105,917)	(105,917)	105,917
Net cash provided (used) by operating activities	(\$1,500)	\$165,113	(\$62,616)	\$100,997	\$255,188

The Notes to the Financial Statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Manistee-Benzie Community Mental Health Services
Manistee, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Manistee-Benzie Community Mental Health Services (the Board) as of and for the year ended September 30, 2006, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated November 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

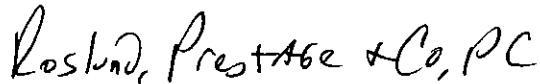
In planning and performing our audit, we considered the Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Board in a separate letter dated November 28, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 28, 2006



MANAGEMENT LETTER

Board of Directors
Manistee-Benzie Community Mental Health Services
Manistee, Michigan

In planning and performing our audit of the financial statements for Manistee-Benzie Community Mental Health Services for the fiscal year ended September 30, 2006, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated November 28, 2006 on the financial statements of Manistee-Benzie Community Mental Health Services.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Co, PC
Roslund, Prestage & Company, P.C.
Certified Public Accountants

November 28, 2006

STATUS OF PRIOR YEAR RECOMMENDATIONS

During the audit we were pleased to note that all of the recommendations identified in the management letter Manistee-Benzie Community Mental Health Services (the Organization) from the prior year had been reviewed and implemented. We commend you on your efforts to strengthen internal controls and operating efficiencies.

CURRENT YEAR COMMENTS

Bank Accounts

At present, the Organization has two money market accounts that did not have any activity during the 2006 year (with the exception of minimal interest income). We recommend Management consider closing these accounts and reinvest the funds to maximize interest income.

Investigate Level of County Appropriations

During our audit, we became aware of matters that indicate the level of appropriation revenue expected to be received from Manistee and Benzie Counties during 2007 is not sufficient. We therefore recommend Management of the Organization examine Manistee and Benzie Counties local match obligations and determine if their respective obligations are being met.